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Statement from Senator Judd Gregg on CBO Report on Future of Income Tax Rates If Entitlement Accounts Remain On Current Path

"For years many of us have been pointing to the growth in spending for entitlement programs as an unsustainable course that will bankrupt our nation and wipe out any chance future generations have at a reasonable quality of life. At my request, the Congressional Budget Office undertook a study to examine the levels of taxation that would be needed to fund this unchecked growth in entitlement spending, especially in regard to skyrocketing health care costs.

"CBO's response to my request should make Congress and every American take notice. Without long-term changes to Medicare, Medicaid, and Social Security, and without compromising spending on other important government programs, income tax levels would soar to such heights that are obviously so unreasonable that they are comical – including one tax bracket that would experience a 163% increase in its rate to 92%. If we do not act to make necessary changes to Medicare, Medicaid, and Social Security, the alternatives to these levels of taxation are either unsustainable levels of debt or unacceptable reductions in annual spending on critical programs: national defense, environmental protection, education, transportation infrastructure, and medical research, to name a few.

"CBO has again showed us what will happen if we continue to ignore this looming fiscal crisis. We can not longer afford to kick this can farther down the road and hope the problem resolves itself. This CBO study should serve as a wake up call to those that haven't been listening that we need responsible action now to save the ability of future generations to fund the most basic functions of its own government."

Highlights of Today's Report:

- The economic cost of financing entitlement growth is modest in comparison to an alternative policy that would allow the deficit and debt to rise to unsustainable levels.

- Assuming that the tax code is indexed for real wage growth (everyone remains in their current income tax bracket), marginal tax rates would need to rise 70% to pay for entitlements if health care costs decline from their 40 year average to GDP plus one percentage point and 160% if health care costs remain at the 40 year average of GDP plus 2.5 percentage points.

- The table below indicates how much marginal tax rates would need to rise in order to completely offset increased entitlement spending.

Selected Marginal Income Tax Rates	**Excess Cost Growth in Health Care**	
Currently	***GDP + 1%***	***GDP + 2.5%*** (avg. over past 4 decades)
10%	17%	26%
25%	43%	66%
35%	60%	92%
Top Corporate Rate		
35%	60%	92%

The report can be found at:
http://www.cbo.gov/ftpdocs/82xx/doc8295/07-09-Financing_Spending.pdf

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